

## ROUTING AND RECORD SHEET

SUBJECT: (Optional)

M/H OF NIE 97-84 PERU: ECONOMIC AND POLITICAL PROSPECTS

FROM:

NIO/LA

EXTENSION

NO. NIC 01830-87

DATE 23 April 1987

STAT

TO: (Officer designation, room number, and building)

DATE

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OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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The Director of Central Intelligence

Washington, D.C. 20505

NIC 01830-87  
23 April 1987

National Intelligence Council

MEMORANDUM FOR: Acting Director of Central Intelligence

FROM: Robert D. Vickers, Jr.  
National Intelligence Officer for Latin America

SUBJECT: Memorandum to Holders of NIE 97-84  
PERU: ECONOMIC AND POLITICAL PROSPECTS

1. Attached for your review are the Concept Paper and Terms of Reference for the Memorandum to Holders of NIE 97-84 PERU: ECONOMIC AND POLITICAL PROSPECTS. The principal drafter is [ ] of DDI/ALA.

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2. As a result of the SRP comments, we have added a section on the prospects for the center-right in Peru, expanded our treatment of the insurgency, and focused on future Peruvian relations with the US in the last section. We also plan to give full attention to Soviet-Peruvian ties.

3. We plan to meet to coordinate the TORs during the first week of May 1987.

*Robert D. Vickers, Jr.*  
Robert D. Vickers, Jr.

*How about the changes in the since the review of past performance.*

Attachment:  
as stated

APPROVED:

*R. Gates*  
Acting Director of Central Intelligence

30 APR 1987

Date

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MEMORANDUM TO HOLDERS OF NIE 97-84  
PERU: ECONOMIC AND POLITICAL PROSPECTS

Concept Paper

The prospects for the new government in Peru were last assessed in late 1984, when NIE 97-84 was prepared in anticipation of the early 1985 presidential elections. The Estimate projected the victory of Alan Garcia and correctly outlined the key challenges that would confront his new administration. While still popular after two years in office, however, Garcia faces mounting economic and political pressures which need further analyses, especially in light of trends that have emerged over the past year.

- Garcia moved quickly--and with some success--to deal with a range of problems inherited from his predecessor. He has managed his difficult economic legacy better than anticipated in 1984, but rising inflation and reduced investment are likely to lead to serious problems in the months ahead, and Garcia may have to come to terms with some of Peru's major foreign creditors.
- The Intelligence Community correctly projected that the problem posed by the leftist insurgent group Sendero Luminoso would resist easy solution, but Garcia's policies have been ineffective and the guerrillas have become increasingly successful in mounting both rural and urban operations.
- The Intelligence Community estimated that no Peruvian government would be able to make much headway against coca producers; Garcia--although anxious to curb trafficking--has in fact hesitated to commit substantial resources to the eradication effort.
- The military--estimated in 1984 to be unlikely to intervene in the government--seems restive over the government's vacillating counterinsurgency strategy and Garcia's plans to form a new defense ministry that would tighten civilian control over the services.
- Finally, we predicted that Garcia's foreign policy strategy would be markedly more nonaligned and less pro-American than that of his predecessor. We also forecast closer Soviet Bloc ties, but failed to predict problems with Cuba brought about largely by Garcia's aspirations to a regional leadership role.\*

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The Memorandum to Holders will evaluate President Garcia's performance in office and assess prospects for continued democratic government in Peru during the next two to three years. Specifically, it will focus on Garcia's management of the economy, the insurgency, drug enforcement programs, relations with the military, and key foreign policy issues. It will also assess the implications for US policy interests and the government's vulnerability to outside pressure. Key questions to be answered include:

- What are the prospects that President Garcia will be able to deal with his major domestic challenges over the next few years, including the economy, the insurgency, and the narcotics problems?
- What are the chances that Garcia will assume a major leadership role on various regional issues, including debt, Central American policy, and the East-West balance, including Soviet/Cuban ties?
- What is the outlook for Garcia's political future, including the next election? If he were to fall, how would he be removed and what kind of regime is likely to replace him?
- What key variables would most likely affect Garcia's overall prospects over the next several years, how vulnerable is he to external pressures, and what are the implications for the United States?

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MEMORANDUM TO HOLDERS OF NIE 97-84  
PERU: ECONOMIC AND POLITICAL PROSPECTS

Terms of Reference

- I. What are the prospects that President Garcia will be able to deal with his major domestic challenges over the next few years, including the economy, the insurgency, and the narcotics problem?
  - A. Will Garcia manage to sustain the economic growth registered in the past year and continue to reject foreign creditors?
    - What has been his performance thus far?
    - Is Garcia heading for future economic difficulties?
    - Is his administration likely to come to terms with foreign creditors?
  - B. Is the the leftist Sendero Luminoso likely to continue to expand and will the insurgency pose a serious threat to the central government?
    - How and why has the insurgency grown since Garcia assumed office?
    - Is the SL likely to accept foreign support or cooperate with the other radical leftist groups?
    - Can the insurgency destabilize the Peruvian government?
    - Will Garcia toughen his counterinsurgency strategy to meet the challenge?
  - C. Will Garcia devote the resources necessary to combat narcotics trafficking?
    - What factors have affected his drug policies thus far?
    - What pressures exist to encourage more aggressive efforts?
- II. What is the outlook for Garcia's political future, and is he likely to attempt to remain in office beyond 1990?
  - A. What will be the impact of growing rifts inside APRA?
    - The nature of the divisions.
    - Will Garcia be able to manage the splits?

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B. Will the opposition parties of the United Left (IU) make sufficient gains in coming months to mount a strong challenge for the presidency?

- How has the IU fared under Garcia?
- Who are the likely IU presidential candidates and what is the likelihood of the IU unifying behind one candidate in 1990?
- What vulnerabilities does the IU see in the Garcia administration?

C. What are the prospects for the center-right parties in future elections?

- Can the center-right parties present a viable alternative to the left by 1990?
- Is Garcia likely to seek an alliance with either the right or the left in future elections?

D. What is the likelihood that Garcia's policies will prompt military intervention by 1990?

- What will be the impact of Garcia's attempts to gain better control and direction of military policy, including the President's counterinsurgency strategy, antidrug programs, and the new defense ministry law?
- Which services would support a coup and what factors might prompt military intervention?

III. What are the chances that Garcia will assume a major leadership role on various regional issues, including debt, Central American policy, and the East-West balance?

A. What factors have shaped Garcia's foreign policy and are any changes on critical issues likely?

- Is Garcia likely to press for a debtors' cartel?
- Will he be a significant player in the Central American equation?
- Does Garcia still want to gain the presidency of the Non-Aligned Movement?

B. How will Garcia manage Peru's relationship with the Soviet Union and Cuba?

- What has been the pattern of Soviet relations with Peru, and are the Soviets likely to gain additional influence under Garcia?
- Is Garcia likely to try to alter the military relationship with Moscow?
- Will Garcia reach some measure of accommodation with Castro?

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- IV. What key variables would most likely affect Garcia's overall prospects over the next few years, how vulnerable is he to external pressure, and what are the implications for the US?
- A. What key variables would affect the most likely outcome?
- What are possible alternative scenarios?
  - What will be the most important indicators of another outcome?
- B. Will Garcia respond to external pressure?
- On what issues, if any, of importance to the US might Garcia show some flexibility?
- C. What are the future prospects for Peru's relations with the United States?
- How does Garcia view the US and its regional policies, including its relationship with Peru?
  - What would he want in exchange for a policy shift towards more cooperation, and is he likely to approach Washington for military or other assistance to combat the insurgency and drug trafficking?

## Proposed Tables:

- The Military under Garcia
- Profile of Extremist Groups
- A Look at Economic Performance

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